CHAPTER 4 : AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION

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Impendle Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Mayoral committee	
Executive Mayor	HW Cllr S.G. Ndlela (Appointed 3 June 2011)
Councillors	C.D. Gwala (26 May 2011) S. Mlaba (26 May 2011) S.M. Makhaye (26 May 2011) P. Mtolo (26 May 2011) N. Mvelase (26 May 2011) H.T. Zuma (26 May 2011) Nxele (Outvoted 18 May 2011) E.B. Madlala (Resigned February 2011) K.M. Dlamini (Outvoted 18 May 2011) M.M. Cekwane (Outvoted 18 May 2011) T.R. Mncube (Resigned February 2011)
Grading of local authority	Grade 1 Category B
Accounting Officer	B.S. Duma (Resigned April 2011) E.X. Muthwa (Acting May 2011) Tel: 082 903 1301
Chief Finance Officer (CFO)	T.S. Khwela Tel: 082 954 3502
Registered office	21 Mafahleni Street Impendle 3327
Business address	21 Mafahleni Street Impendle 3327
Postal address	Private Bag x512 Impendle 3327
Bankers	ABSA PIETERMARITZBURG
Auditors	Auditor General

Impendle Municipality

Annual Financial Statements for the year ended 30 June 2011

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officers has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON IMPENDLE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Impendle Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 33 to 41.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and General Notice No. *1111 of 2010* issued in Government Gazette No. *33872 of 15 December 2010.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Impendle Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Irregular expenditure

9. As disclosed in note 34 to the financial statements, the municipality incurred irregular expenditure of R1,799 million as the expenditure incurred was in contravention of the Local Government: Municipal Supply Chain Management Regulations (MSCMR), 2005.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

11. The supplementary information set out on pages 61 to 66 does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and, accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of General Notice No. *1111 of 2010*, issued in Government Gazette No. *33872 of 15 December 2010,* I include below my findings on the annual performance report as set out on pages 77 to 137 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

13. There were no material findings on the annual performance report.

Compliance with laws and regulations

Procurement and contract management

14. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of MSCMR 19(a) and 36(1).

Strategic planning and performance management

15. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72(1) (a) (ii) of the MFMA.

Expenditure management

16. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

INTERNAL CONTROL

17. In accordance with the PAA and in terms of General Notice No. *1111 of 2010*, issued in Government Gazette No. *33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

18. The accounting officer and delegated officials have not exercised oversight responsibility over compliance with laws and regulations and internal control.

Financial and performance management

19. Actions are not taken to address risks relating to non-compliance with regulatory performance and financial reporting requirements. This is because internal controls were not effectively developed to prevent and detect instances of irregular expenditure and comply with performance reporting requirements.

Auditor - General

Pietermaritzburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Accounting Officer's Responsibilities and Approval

The accounting officer are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer have reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the grant allocations through the Division of revenue act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern nd that the Impendle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Finance Officer.

The Auditor General is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the Auditor General and their report is presented on page 4.

The annual financial statements set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

EX Muthwa

Accounting Officer
E.X. Muthwa - Acting Municipal Manager
(Appointed 1 May 2011)

Impendle Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Trade and other receivables	6	114 767	214 183
VAT receivable	7	2 185 873	2 877 582
Consumer debtors	8	395 623	383 290
Cash and cash equivalents	9	5 047 129	7 611 202
		7 743 392	11 086 257
Non-Current Assets			
Investment property	3	6 064 610	3 239 670
Property, plant and equipment	4	26 225 855	20 977 263
Intangible assets	5	310 848	407 518
		32 601 313	24 624 451
Total Assets		40 344 705	35 710 708
Liabilities			
Current Liabilities			
Trade and other payables	14	148 636	1 314 716
Unspent conditional grants and receipts	12	4 055 470	5 967 762
Provisions	13	986 282	801 764
		5 190 388	8 084 242
Non-Current Liabilities			
Finance lease obligation	11	1 853 389	2 172 480
Total Liabilities		7 043 777	10 256 722
Net Assets		33 300 928	25 453 986
Net Assets			
Reserves			
Revaluation reserve		2 884 676	-
Accumulated surplus		30 416 252	25 453 986
Total Net Assets		33 300 928	25 453 986

Impendle Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of services		15 708	18 880
Property rates	16	777 379	1 309 267
Service charges	17	36 280	32 015
Rental of facilities and equipment		157 720	148 025
Fines		6 531	15 330
Licences and permits		14 072	7 990
Government grants & subsidies	18	26 900 083	25 046 410
Fees earned		18 983	34 910
Commissions received		11 092	-
Other income	19	19 327	2 640
Sale of Property		1 974	-
Library services		-	284 434
Income form insurance		75 240	-
Indemnity		500	-
Billboards		-	300
Fax & printing		26 776	22 328
Local Government SITA-Refund		11 618	6 403
Sundry receipts		719 394	174 300
Interest received - investment	24	522 446	348 353
Total Revenue		**29 315 123**	**27 451 585**
Expenditure			
Salaries and wages	21	(9 566 416)	(7 279 979)
Remuneration of councillors	22	(1 038 014)	(1 218 602)
Transfer payments		-	(9 321)
Depreciation and amortisation	25	(1 296 880)	(1 009 187)
Impairment loss/ Reversal of impairments	26	(15 021)	-
Debt impairment	23	(553 018)	(1 000 000)
Collection costs		-	(45 000)
Repairs and maintenance		(944 443)	(434 283)
Contracted services	28	(400 822)	(322 653)
Grant funded expenditure	29	(3 600 407)	(570 614)
General Expenses	20	(6 937 836)	(8 513 628)
Total Expenditure		**(24 352 857)**	**(20 403 267)**
Surplus for the year		**4 962 266**	**7 048 318**

Impendle Municipality
Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2009	-	18 405 668	18 405 668
Changes in net assets			
Surplus for the year	-	7 048 318	7 048 318
Total changes	-	7 048 318	7 048 318
Opening balance as previously reported	-	25 453 986	25 453 986
Balance at 01 July 2010 as restated	-	25 453 986	25 453 986
Changes in net assets			
Revaluation of property, plant and equipment	58 080	-	58 080
Fair Value adjustment of Investment Property	2 826 596	-	2 826 596
Net income (losses) recognised directly in net assets	2 884 676	-	2 884 676
Surplus for the year	-	4 962 266	4 962 266
Total recognised income and expenses for the year	2 884 676	4 962 266	7 846 942
Total changes	2 884 676	4 962 266	7 846 942
Balance at 30 June 2011	2 884 676	30 416 252	33 300 928

Note(s)

Impendle Municipality

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants and subsidies received		23 043 203	25 980 147
Interest income		522 446	348 353
		23 565 649	26 328 500
Payments			
Employee costs		(10 604 430)	(8 562 027)
Suppliers		(8 802 114)	(11 561 076)
		(19 406 544)	(20 123 103)
Net cash flows from operating activities	30	4 159 105	6 205 397
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(6 393 620)	(10 712 290)
Purchase of other intangible assets	5	(24 335)	(346 320)
Other cash item	31	13 868	222 091
Net cash flows from investing activities		(6 404 087)	(10 836 519)
Cash flows from financing activities			
Finance lease(payments)/ receipts		(319 091)	2 172 480
Net increase/(decrease) in cash and cash equivalents		(2 564 073)	(2 458 642)
Cash and cash equivalents at the beginning of the year		7 611 202	10 069 844
Cash and cash equivalents at the end of the year	9	5 047 129	7 611 202

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of Generally Recognised Accounting Prctice.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

he fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 Years
Plant and machinery	
◦ Graders and Tractors	10 - 15
◦ Farm equipment	5
◦ Other	5
Furniture and fixtures	10
Motor vehicles	
◦ Ambulances	5 - 10
◦ Trucks and light delivery vehicles	5 - 7
◦ Ordinary motor vehicles	5 - 7
Office equipment	
◦ Computer Hardware	4
◦ Computer Software	3 - 5
◦ Office Machines	3 - 5
IT equipment	4
Computer software	3 - [illegible]

1.2 Property, plant and equipment (continued)

Infrastructure	
Community	15
Sports Fields	
Security Measures 3	30
Security Measures 5	3
Communication equipment	5
Other property, plant and equipment	5
Kitchen Equipment	
	5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplust.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as isclosed in 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Intangible assets

1.3 Intangible assets (continued)

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged. either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Transitional provision

The municipality changed its accounting policy for intangible assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The

1.3 Intangible assets (continued)

municipality acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in 5.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.4 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

1.4 Financial instruments (continued)

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.6 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Accounting Policies

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as salaries and wages , bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, Impendle participates in a muiti employer defined plan. Because the plan exposes the participating entities to acturial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. Impendle therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

1.8 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

.fter their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.10 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.11 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.6 and . In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.12 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.14 Presentation of currency

These annual financial statements are presented in South African Rand.

1.15 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Standard of GRAP	
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidation and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after Reporting Date
GRAP 16	Investment Property
GRAP 17	Properties, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 23	Revenue from Non Exchange Transactions
GRAP 24	Presentation of Budget Information in the Financial Statements
GRAP 100	Non current assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

Property, Plant and Equipment

During the year, the municipality changed its accounting policy with respect to the treatment of Property, Plant and Equipment. In order to conform with the benchmark treatment in of GRAP17. The municipality now XXX [For all voluntary changes in accounting policy state also the reason the change provides reliable and more relevant information].

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:

Statement of financial position

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

3. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	6 064 610	-	6 064 610	3 239 670	-	3 239 670

Reconciliation of investment property - 2011

	Opening balance	Fair value adjustments	Total
Investment property	3 239 670	2 824 940	6 064 610

Figures in Rand	2011	2010

3. Investment property (continued)

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	3 239 670	3 239 670

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

Figures in Rand	2011	2010

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	3 927 273	-	3 927 273	3 927 273	-	3 927 273
Buildings	4 440 355	(1 766 950)	2 673 405	4 009 038	(1 501 781)	2 507 257
Plant and machinery	2 827 113	(429 704)	2 397 409	2 275 408	(237 878)	2 037 530
Furniture and fixtures	961 367	(420 468)	540 899	961 135	(325 818)	635 317
Motor vehicles	965 409	(542 522)	422 887	2 155 382	(795 433)	1 359 949
Office equipment	247 173	(97 144)	150 029	311 044	(175 788)	135 256
IT equipment	557 603	(234 510)	323 093	464 539	(199 727)	264 812
Infrastructure	8 922 194	(1 205 268)	7 716 926	2 520 052	(1 037 264)	1 482 788
Community	4 838 810	(130 904)	4 707 906	737 614	(75 759)	661 855
Communication equipment	128 305	(94 018)	34 287	124 975	(57 296)	67 679
Assets Under Construction	3 314 405	-	3 314 405	7 874 468	-	7 874 468
Other property, plant and equipment	34 340	(17 004)	17 336	33 362	(10 283)	23 079
Total	31 164 347	(4 938 492)	26 225 855	25 394 290	(4 417 027)	20 977 263

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
Land	3 927 273	-	-	-	-	-	-	3 927 273
Buildings	2 507 257	31 317	-	400 000	-	-	(265 169)	2 673 405
Plant and machinery	2 037 530	186 090	-	365 614	-	-	(191 825)	2 397 409
Furniture and fixtures	635 317	3 450	(1 904)	-	-	-	(95 964)	540 899
Motor vehicles	1 359 949	-	-	(765 586)	18 000	-	(189 476)	422 887
Office equipment	135 256	28 009	-	-	31 006	(5 334)	(38 908)	150 029
IT equipment	264 812	171 477	(1 086)	-	(9 840)	-	(102 270)	323 093
Infrastructure	1 482 788	921 410	-	5 480 731	-	-	(168 003)	7 716 926
Community	661 855	2 197 252	-	1 929 612	-	-	(80 813)	4 707 906
Communication equipment	67 679	3 329	-	-	-	-	(36 721)	34 287
Assets under construction	7 874 468	2 850 308	-	(7 410 371)	-	-	-	3 314 405
Other property, plant and equipment	23 079	978	-	-	-	-	(6 721)	17 336
	20 977 263	**6 393 620**	**(2 990)**	**-**	**39 166**	**(5 334)**	**(1 175 870)**	**26 225 855**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfers	Depreciation	Total
Land	3 832 273	95 000	-	-	3 927 273
Buildings	2 913 046	47 710	(200 000)	(253 499)	2 507 257
Plant and machinery	72 310	1 859 104	200 000	(93 884)	2 037 530
Furniture and fixtures	577 542	147 778	-	(90 003)	635 317
Motor vehicles	1 058 162	427 186	-	(125 399)	1 359 949
Office equipment	97 677	65 893	-	(28 314)	135 256
IT equipment	211 368	136 726	-	(83 282)	264 812
Infrastructure	1 650 791	-	-	(168 003)	1 482 788
Community	716 752	9 185	-	(64 082)	661 855
Communication equipment	54 752	49 240	-	(36 313)	67 679
Minor plant	-	7 874 468	-	-	7 874 468
Other property, plant and equipment	29 751	-	-	(6 672)	23 079